

Message Text

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ACTION EB-03

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E.O. 11652: GDS

TAGS: ENRG, EINV, VE

SUBJ: STATUS OF COMPENSATION PAYMENTS - PHILLIPS

REF: STATE 97263

CAUTION: PROPRIETARY INFORMATION INVOLVED

1. THIS IS THE FIFTH IN SERIES OF INDIVIDUAL COMPANY REPORTS
ON STATUS OF ISOME PN SATION PAYMENTS.

2 ORVIL HORTON, PHILLIPS REPRESENTATIVE, CITED ONLY SLOW CASH
PAYMENT FOR WAREHOUSE INVENTORIES AND AN OVERZEALOUS FIELD
INSPECTION OF FORMER ASSETS IN EASTERN VENEZUELA AS MATTERS WORTH
MENTIONING IN REGARDS TO THE STATUS OF GOV COMPENSATION PAYMENTS
TO PHILLIPS. HORTON, AS ALWAYS, WAS VERY RELAXED ABOUT THE
SUBJECT.

3. PHILLIPS HAS NOT BEEN PAID FOR DECEMBER 31 OIL INVENTORIES,
HORTON SAID, BECAUSE THE COMPANY HAS NOT YET BILLED PETROVEN.
AN AGREEMENT OF VOLUMEN HAS JUST RECENTLY BEEN REACHED,
AND PHILLIPS EXPECTS TO BILL AND BE PAID FOR THE OIL SHORTLY.
HORTON SAID HIS COMPANY "CAME OUT AHEAD" BY NOT PRESSING FOR QUICKER
PAYMENT. PHILLIPS HAS BEEN PAID FOR
DECEMBER 31 WAREHOUSE
STOCKS. THE PAYMENT FOR STOCKS WAS MADE ALL AT ONE TIME,
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RATHER THAN IN THREE TRANCHES, BECAUSE THE FINANCE MINISTRY WAS

SLOW IN PROCESSING THE DOCUMENTATION. THE COMPANY HAS NOT ATTEMPTED TO RETRIEVE CASH ON DEPOSIT IN THE GUARANTY FUND BY RETRIEVING IT WITH BONDS, PENDING THE OUTCOME OF THE FIELD VERIFICATION OF ASSETS.

4. REGARDING THE FIELD VERIFICATION, HORTON REPORTED THAT THE SURVEY OF PHILLIPS ASSETS IN WESTERN VENEZUELA HAS BEEN COMPLETED AND HIS COMPANY IS SATISFIED WITH THE RESULTS. HOWEVER, IN THE EAST, THE FIELD INSPECTORS HAVE BEEN "MORE NATIONALISTIC THAN CARACAS" AND ARE CLAIMING POTENTIAL DEDUCTIONS TOTALING BS 20 MILLION FROM THE GUARANTY FUND WHEN, ACCORDING TO HORTON, THE FIGURE SHOULD BE LESS THAN BS ONE MILLION. PHILLIPS WILL NOT AGREE TO THIS DEDUCTION, HORTON SAID, AND HE DOUBTS WHETHER THIS HIGH DEDUCTION, FIGURE WILL BE OFFICIALLY REPORTED TO CARACAS. HORTON ADDED THAT THE MINES MINISTRY IS EQUALLY UPSET WITH THE OVERZEALOUS ATTITUDE OF THE FIELD INSPECTORS, AND HAS CALLED THEM TO CARACAS "TO EXPLAIN THE REALITIES" ON AT LEAST ONE OCCASION. THE FINAL DECISION ON DEDUCTIONS WILL NOT BE MADE BY THE NATIONAL GUARANTY FUND COMMITTEE, HORTON BELIEVES, BEFORE NEXT FALL. THERE IS STILL A LOT OF WORK INVOLVED BEFORE THE VERIFICATION IS COMPLETED AND REVIEWED AND A DECISION TAKEN AT THE NATIONAL LEVEL. PHILLIPS HAS APPROXIMATELY SIXTY-FIVE PERCENT OF ITS COMPENSATION IN THE GUARANTY FUND.

5. ON ITS FINAL INCOME TAX DECLARATION, PHILLIPS DID NOT ATTEMPT TO DEDUCT UNAMORTIZED EXPLORATION EXPENSES. HORTON HAD HEARD THAT OTHER OIL COMPANIES ELECTED TO TAKE THIS DEDUCTION. HE IS CERTAIN THAT THE FINANCE MINISTRY WILL THROW OUT THE DEDUCTIONS.

6. PHILLIPS HAS ONLY SEVERAL MINOR DIFFERENCES REGARDING THE FINAL VERSION OF ITS DRAFT TECHNICAL SERVICES CONTRACT. AT THE MOMENT, THE DRAFT IS "MISPLACED" IN THE PETROVEN OFFICE OF THE LEGAL ADVISOR, ANDRES AGUILAR.

7. COMMENT. THE PHILLIPS GAME PLAN CLEARLY APPEARS TO BE ONE OF COOPERATION WITH THE GOV, BOTH IN THE COMPENSATION PAYMENT SCHEDULE AND IN OTHER ASPECTS OF OIL POLICY. FOR EXAMPLE, PHILLIPS IS NOW LIFTING 54,000 B/D, OR 23,000 B/D MORE THAN ITS 1975

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AVERAGE. THE COMPANY AGREED TO LIFT ENOUGH PRODUCTS FROM THE FORMER ARCO EL CHAURE REFINERY IN PUERTO LA CRUZ TO ENABLE PETROVEN TO KEEP THE REFINERY OPERATING, WHEN ARCO WAS UNABLE TO FIND BUYERS FOR THE REFINERY OUTPUT AFTER NATIONALIZATION. IN VIEW OF THE ATTITUDE OF COOPERATION ON OFFTAKE, AND THE COMPANY'S FAVORABLE EXPERIENCE BY WAITING ON PAYMENT FOR OIL INVENTORIES, IT IS UNLIKELY THAT PHILLIPS WILL PRESS THE GOV TO SPEED UP OTHER ASPECTS OF THE COMPENSATION SETTLEMENT. END COMMENT.

CAUTION: PROPRIETARY INFORMATION INVOLVED.

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